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IMPROVEMENT OF TRANSIT TRANSPORT SYSTEMS IN LANDLOCKED AND TRANSIT DEVELOPING COUNTRIES: ISSUES FOR CONSIDERATION

Report by the UNCTAD secretariat

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EXECUTIVE SUMMARY

1. As world trade continues to increase at a remarkable pace, so has the need for more efficient, economic and environmentally sound transport. Better transit transport services in terms of speed, reliability and flexibility have been used to retain markets or capture new ones or to justify a rise in price, thereby generating additional revenues.

2. The lack of territorial access to the sea, aggravated by remoteness and isolation from world markets and by the prohibitive transport costs associated with conditions of inadequate infrastructure, imbalance of trade, inefficient transport organization, poor utilization of assets and weak managerial, procedural, regulatory and institutional systems, poses serious constraints on the trade and economic development of landlocked developing countries.

3. This study takes a close look at the magnitude and structure of transit costs facing a selected number of landlocked developing countries to shed light on the problems they face and to indicate how such costs could be reduced. The study reveals, in the first place, the high element of land transit transport costs compared with ocean freight charges. This finding suggests that any attempt to increase the competitiveness of the exports of landlocked developing countries will primarily have to aim at influencing the level and structure of costs occurring in the land transit operation. The second general observation relates to the apparent parity of freight charges between rail and road transport in many routes, which suggests that modal choice is mainly a function of quality of services. This places a high premium on inter-railway coordination, without which the future of railways will be bleak indeed.

4. Policy changes since 1997 which have made railroad competition possible should be encouraged. It is important, however, that competition takes place on a level playing field. This requires on the one hand that road transport pays road charges which are high enough to reflect the full cost of road construction and maintenance, and on the other, that transport operators' hands are not tied by the unnecessary and cumbersome procedures and numerous costs imposed on them in the countries of transit. If road operators were made to pay reasonable charges for the use of infrastructure, they would expect it to be kept in good condition. In this regard, progress is being made to strengthen appropriate institutions, such as Road Funds, that are dedicated to the maintenance of road transport infrastructure. Another area which needs strong action relates to the notorious practice of road vehicle overloading, which accelerates vehicle depreciation and causes much road damage. There is also a need to raise the professional level of transport operators. The problem is particularly serious in West Africa, where many road carriers still operate in the informal sector, using old and small open-top lorries not suitable for transit operations. It is the use of this inappropriate type of vehicles that makes customs escort necessary, as well as elicit vigorous police inspections.

5. Procedures and documentation can have a strong impact on transport costs. Because the exchange of goods requires not only the physical transportation of goods but also flows of information largely encoded in documents, and flows of money in payment for the fulfilment of contracts, cumbersome procedures and documentation have a direct influence on transit costs. When documents accompanying goods are held up, so are the goods.

6. Harmonization, simplification and standardization of transit procedures and documentation have played a critical role in improving transit systems. Regional instruments and common standards that have made a difference in transit operation in Africa include: the COMESA Carrier Licences and Transit Plates, widely used in eastern and southern Africa; harmonized axle load limits in West Africa, eastern and southern Africa; harmonized transit charges in eastern and southern Africa; and, the operation of third-party motor vehicle insurance schemes in West Africa and eastern and southern Africa.

7. It has taken considerable courage on the part of Governments to adopt and implement such radical changes as the privatization of railways and liberalization of transport services, but the pay-off, in terms of increased efficiency of transit operations, has encouraged some Governments to widen and deepen areas of cooperation. In southern Africa, where some of the most successful reforms have been

undertaken, new programmes include efforts to establish a regional customs transit system, and to consolidate and extend computerization of customs procedures and transport information systems, and the establishment of joint inspection border posts.

INTRODUCTION

8. In paragraph 11 of its resolution 52/183 of 18 December 1997, the General Assembly requested the Secretary-General of the United Nations to convene in 1999, within the overall level of resources for the biennium 1998-1999, another meeting of governmental experts from landlocked and transit developing countries, and representatives of donor countries and financial and development institutions, including relevant regional and subregional economic organizations and commissions, to review progress in the development of transit systems, including sectoral aspects, as well as transit transportation costs, with a view to exploring the possibility of formulating necessary action-oriented measures.

9. This report, which is in response to that request, contains three sections. The first section reviews recent developments in key areas of transit transport ploicy. It underscores the dependence of landlocked developing countries on commodity exports and therefore their vulnerability to erratic international commodity prices and adverse weather conditions. It also highlights recent changes in trade and transit transport patterns and evaluates the impact of transit policy on transport costs and services.

10. The second section takes a closer look at the magnitude and structure of transit costs and highlights the impact of procedures and documentation on such costs. The analysis of magnitude and cost structure is based on field research conducted by the United Nations Conference on Trade and Development (UNCTAD) in 1999 in five subregions: north-east Asia; West Africa; central Africa; Eastern Africa; and southern Africa.

11. The third section draws conclusions and makes proposals for future action. The section identifies a few priority areas for action. The point is made that while the primary responsibility by implementing the recommendations is that of landlocked countries and their neighbours, it is expected that strong support will be extended by the international donor community.

I. RECENT DEVELOPMENTS IN KEY AREAS OF TRANSIT TRANSPORT POLICY

A. Transit transport policy changes

12. The rapid expansion of international trade has broken old barriers and strengthened international cooperation. Efforts to create a stable economic policy environment in landlocked and transit developing countries are having a positive impact on transit transport operations. A change in attitudes and perceptions has helped to make public services, such as customs, ports and railways, more service oriented, thereby creating a better environment for transit transport operations.

13. Policy changes in the past two years that have had a direct impact on transit transport include the reform of railways (commercialization or privatization); liberalization of transport services; relaxation of foreign exchange regulations; rationalization of fiscal policies; currency devaluations; increased use of electronic data interchange; establishment of stronger institutional support arrangements for transit; entry into force of comprehensive intergovernmental agreements, and public and private sector collaboration.

1. Liberalization of transport services

14. Progress is being made on the liberalization of transport services at both the national and regional levels. At the national level, initiatives relate to the break-up of railway monopolies and to opening the door to road competition. At the regional level, actions involve both the break-up of railway monopolies and the opening of national transport markets to foreign competition.

15. More progress has been made in liberalizing transport services at the national level than at the regional level. In many landlocked and transit developing countries, national railway companies now compete with road transport operators on an equal footing. This policy change, which was not easy to effect, is being implemented against strong protest by railway administrations who see it as a threat to railway transport. But not all railway administrations have accepted defeat;

some have decided to fight back. Malawi Railways is a case in point. After years of heavy losses, the railway company went bankrupt in 1993 and was restructured, a process that included the closure of some passenger services and unprofitable lines and retrenchment of workers. In addition, the company's two main divisions, Railway Services and Lake Services, were divided into separate companies in 1995. In 1995 Malawi Railways recorded a small profit for the first time since the 1970s, mainly as a result of the restructuring exercise. Prospects have been buoyed by the increased volume of external freight traffic and continuing restructuring in the run-up to full privatization sometime in 1999.

16. The impetus of liberalization of transport services at the national level has had a contagion effect at the regional level in some regions but not in others. In eastern and southern Africa, the breakdown of monopolies at the national level led to a general relaxation of restrictions, allowing foreign operators to penetrate new markets. Liberalization of transport services at the regional level was formalized under the Common Market of Eastern and Southern Africa (COMESA) Carrier Licence scheme. Licences issued under the scheme in any member State are accepted by all the others. This liberal environment in eastern and southern Africa has led to fierce competition and efficiency in road transport, forcing railways also to adjust and improve.

17. In West Africa, liberalization at the national level has not been followed up at the regional level. Cargo allocation regulations continue to insulate transport operators from landlocked countries against competition, guaranteeing them two thirds of the cargo moving to and from landlocked countries. This protection has not been used by transport operators in landlocked developing countries to modernize their operations. Many road hauliers still operate in the informal sector. They lack the managerial skills and capital to invest the in heavy-duty vehicles without which they cannot offer cost-effective transport services.

2. Railway autonomy

18. The autonomy enjoyed by railway administrations in many countries, by contrast has enabled them to take measures that have improved railway services and performance. In East Africa, for example, Uganda and United Republic of Tanzania Railways operate block trains between Dar-es-Salaam and Kampala; as do Uganda and Kenya Railways between Mombasa and Kampala. Such services have reduced delays and improved the reliability of supply, making it possible for traders to keep smaller buffer stocks. The railway administrations in southern Africa acting under the auspices of the Southern African Development Community (SADC) have devised a Regional Action Plan (RAP) which has improved operational efficiency at the regional level and enabled them to respond more effectively to road transport competition.

3. Privatization of railways and other public utilities

19. Privatization of railways has normally involved the grant of a long-term concession to private sector operators in return for new investments and better management with the objective of improving railway capacity and performance. In the case of the Abidjan-Niger Railways, a concession of 17 years was granted to SITARAIL dominated by a French private enterprise, Saga, which has promised to invest CFA F 33 billion (US$ 62.6 million)for purchase of rolling stock and improvement of infrastructure and telecommunications. The privatization of the 1,260- km Abidjan-Niger Railways in 1995 will soon be followedup by Cameroon Railways. Other railways contemplating similar action include Malawi, Mozambique, United Republic of Tanzania and Zambia.

4. Foreign exchange regulations

20. Relaxation of foreign exchange regulations has removed some important obstacles to transit trade, also enabling private sector transport operators in many landlocked and transit developing countries to retain some hard currency for purchase of spare parts and equipment. On a day-to-day basis, the ease with which hard currency can be obtained in banks or foreign exchange bureaux has facilitated travel and transit operations and their agents. Truck drivers can obtain hard currency to pay transit fees and other expenses required in the countries of transit. Relaxation of foreign currency regulations has also reduced delays and uncertainty, thereby contributing to improved transit transport services.

5. Currency devaluation

21. The devaluation of the CFA franc in 1994 caused a temporary shortfall in transit traffic because of reduction in imports. But the impact of devaluation, together with other demand-boosting policies including wage increases, has stimulated the economies of Burkina Faso, Mali and Niger, thereby boosting transit transport and trade in West Africa as a whole.

6. Transit transport information systems

22. Transit transport information systems are being installed to track transport equipment and consignments, thus improving the efficiency of railway operations. The UNCTAD Advance Cargo Information System (ACIS) started in 1988 and is operational or being installed in 14 countries of which five (Burkina Faso, Malawi, Mali, Uganda and Zambia) are landlocked. The SADC railway authorities are in the process of implementing a Regional rolling stock information system (RSIS) sponsored by the United States Agency for International Development (USAID). This is a major project which will cover all countries that have not installed a real-time information system. The objective of the project is to enhance the predictability of services, improve rolling stock utilization and enable railways to give their customers in the landlocked countries accurate information on the location of their shipments throughout the 45,000 kilometers of the SADC railway network.

7. Customs transit information systems

23. Efficient information processing and transfer systems contribute to facilitating customs transit procedures. They can ease the burden of customs staff, reduce truck waiting times, reduce paper documentation and speed up procedures of discharge of customs bond and security. More than 70 countries worldwide have now adopted UNCTAD's, Automated System for Customs Data(ASYCUDA). The participating countries include many landlocked countries.

8. Institutional support arrangements for transit

24. Managing change on a sustainable basis requires organization. Both the public and private sectors are taking action to establish appropriate institutions geared to support transport and transit operations. Many Governments now have separate Ministries responsible for transport, public works and telecommunications. Some of them have also created new autonomous bodies such as Road Funds, which are dedicated to the maintenance and rehabilitation of transit routes. At the private sector level, there is more awareness that the business community could better defend its interests if it was more effectively organized. Initiatives to establish new professional associations have multiplied. These involve such occupations as road hauliers and forwarding and clearing agents. Professional organizations will strengthen the participation of the private sector in the consultative and decision -making processes.

9. Intergovernmental agreements

25. Progress is being made in the number of countries acceding to international conventions and concluding regional and bilateral agreements. Since 1997 there has been a flurry of activity, especially in the newly independent landlocked developing countries of Central Asia, which have acceded to a number of international conventions.[1]

26. The Central Asian countries have also signed or adopted a number of regional agreements or arrangements, including: (a) the transit transport framework agreement among member States of the Economic Cooperation Organization, adopted at Almaty, Kazakhstan, on 9 May 1998; (b) the Tashkent Declaration of 26 March 1998 on the United Nations special programme for the economies of Central Asia, signed by the

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[1] Convention on Road Traffic, 1968; Protocol on Road Signs and Signals, 1949; Convention on Road Signs and Signals, 1968; Convention on the Contract for the International Carriage of Goods by Road (CMR), 1956; Customs Convention on the International Transport of Goods under Cover of TIR Carnets, 1975.

Heads of State of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, and by the Economic Commission for Europe and the Economic and Social Commission for Asia and the Pacific; and (c) the signing of the Baku Declaration of 8 September 1998 relating to the implementation of the expanded Transport Corridor-Europe-Caucasus-Asia programme.

27. The basic thrust behind intergovernmental agreements has been the recognition that transit transport cannot occur efficiently without agreement on a common set of rules among countries sharing particular corridors and routes. Without such agreements, transporters would be forced to adjust to different legal and technical requirements in each of the countries they pass through, exposing them to repeated inspections and wasteful delays.

28. Transit transport agreements normally include: (a) provisions relating to freedom of transit; avoidance of unnecessary delays; exemption from taxes and other charges except those required to meet the administrative costs of transit; (b) designation of transit transport corridors, including rail, road, and inland waterways; (c) provisions relating to maritime ports and facilities to be provided for use of transit traffic; (d) general conditions for road transport, including use of appropriate traffic regulations, provisions regarding road transport permits, technical requirements for vehicles, mutual recognition of driving permits and motor vehicle third-party insurance provisions;(e) general conditions for rail transport, including designated interchange stations at borders and arrangements for technical inspections; (f) simplified harmonized and standardized customs and administrative procedures, joint inspections, and the establishment of a customs transit systems; and (g) establishment of institutional arrangements for transit.

10. Public and private sector collaboration

29. Public and private sector collaboration is improving. Old perceptions are giving way to the realization that the private sector as the main provider of transport services has first-hand knowledge of the bottlenecks and obstacles encountered in day-to-day operations, and as such, is usually best suited to identify problems and propose viable and practical solutions. The private sector has a major stake in ensuring that transit transport facilitation succeeds because it is a direct beneficiary of the measures designed to harmonize inter-State regulations and simplify administrative and customs regulations. Thus, the participation of the private sector in policy formation would not only facilitate the adoption of suitable measures but also secure sector's cooperation in implementing them.

30. In southern Africa, public and private sector collaboration has been strong. It is best exemplified by the so-called "Corridor Development Groups (CDGs)". The CDGs provide the institutional framework within which the public and private sectors work together to develop transport corridors. While the public sector takes responsibility for investing in physical infrastructure, the private sector identifies and invests in viable and profitable projects along the corridor. Private sector projects include construction of container depots; cold store chains; and commercial farming. Ten years after the Beira Corridor Group (BCG) was established, southern Africa witnessed the establishment of two new CDGs in 1998 and 1999 respectively. These are the Maputo Corridor, along the Maputo-Rassano Carcia Railway which links South Africa to the port of Maputo in Mozambique; and the Mtwara Corridor Group (MCG), which aims to develop the port of Mtwara in United Republic of Tanzania to serve the country's southern provinces, as well as the transit trade of Malawi, Zambia and northern Mozambique.

B. Emerging trade and transit patterns

1. Emerging trade patterns

31. Although many landlocked developing countries still depend on a few agricultural commodities and/or minerals for their foreign currency earnings, diversification is under way as part of their overall programmes of economic development. Evidence of emerging production and trade patterns is apparent in a number of landlocked developing countries, notably Bolivia, Botswana, Mongolia and Uganda. The mining industry in Bolivia, apparently buoyed by gold production has

rebounded. In addition, investments in commercial agriculture in the eastern lowland department of Santa Cruz have made Bolivia an important exporter of soya beans. In Mongolia, the exploitation of hydrocarbons in the near future is expected to further strengthen trade exchange with the China. In Uganda, while coffee remains the main export crop, foreign exchange receipts from non-traditional exports, notably fish and fish products, maize, beans, gold and gold components, have significantly increased. Important mining projects under way in Mali and Burundi will also broaden the production base and change the trade pattern for these countries.

2. Emerging transit transport patterns

32. The development of new production areas are changing transit transport patterns. In Bolivia for example, the development of the Eastern lowlands for commercial agriculture and the construction of an oil pipeline to supply Brazil is tilting the country's direction of trade towards the Atlantic coast. Burundi has recently opened up a new transit route to the South via lake Tanganyika. This route is important for imports of sugar, cement and other consumer goods from the Southern African countries of Malawi, Zambia and South Africa. The secession of hostilities in Mozambique has restored Malawi's shortest route to the sea via the port of Nacala. Nacala is only about 600 km from Malawi, while the alternative maritime ports of Durban and Beira are approximately 3000 km, and 800 km, respectively, away from Malawi. Improving the efficiency of these new transit routes will reduce transport costs of the landlocked countries concerned and contribute to regional and international trade expansion.

II. MAGNITUDE AND STRUCTURE OF TRANSIT COSTS IN SELECTED LANDLOCKED DEVELOPING COUNTRIES

33. Landlocked developing continue to suffer from excessive transport costs. High import transport costs inflate the consumer prices of imported goods, and high transport costs on exports undermine their competitiveness in foreign markets.

34. A rough measure of the transit cost disadvantage faced by landlocked developing countries is provided by balance-of-payment statistics which show freight cost as a proportion of c.i.f. values. In 1994, freight costs were approximately 4.0 per cent of the c.i.f. import values of developed economies, and 7.2 per cent of the c.i.f. import value of developing countries, while the average for landlocked developing countries was 14.7 per cent. Landlocked developing countries in West Africa incur the highest rates, - about 27.5 per cent - followed by East Africa, with approximately 23.6 per cent. The proportion of freight costs in southern Africa and Latin America is 10.7 per cent and 16.2 per cent, respectively.[2]

35. On the export market, in 1994 landlocked developing countries spent about 17.7 per cent of their export earnings for payment of transport services, while the average for all developing countries stood at 8.7 per cent. When the figure is compared to trade tariffs in major developed markets (United States, Canada, European Union, Japan), the payment of transport services constitutes, higher barriers to the trade of landlocked developing countries than trade tariffs because the post-Uruguay Round most-favoured-nation (MFN) tariffs of Canada, European Union, Japan and the United States will range between 3.7 per cent in the United States and 7.1 per cent in Canada, once the negotiated reductions are fully phased out.

36. The high cost of international trade for landlocked developing countries is a serious barrier to trade. The factors accounting for the high cost include inadequate infrastructure; imbalance of trade; inefficient transport; poor utilization of assets, and a proliferation of cumbersome government regulations and procedures.

37. International transport costs may be defined as the direct and indirect costs which are incidental to the transportation of goods from a point of loading up to destination. The definition of cost could be based on port-to-port, door-to-door, port-to-door or door-to-port. The largest proportion of such costs goes to freight charges, with inland freight being higher than sea freight (see Table 1). Other

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[2] UNCTAD/LDC/104

costs include some or all of the following: (a) handling charges at terminals, warehouses, ports, airports, inland depots; (b) storage costs; (c) insurance costs; (d) documentation; (e) clearing and forwarding agents' fees; (f) costs incurred for customs clearance; (g) banking fees; (h) administrative costs; (i) security costs incurred in providing additional security arrangements for avoiding dilution and loss by pilferage of goods in transit; (j) costs incurred in crossing frontiers, fees for various overlapping sanitary or health inspections; (k)additional costs for delays in excess of normal transit time and uncertainty of traders; (l) monopoly elements, inflated costs of transport inputs, informal payments; and (m) demurrages for failure to turn in containers on time.

Table 1: Comparison of transit and ocean freight costs of imports to a selected number of landlocked developing countries from north-western Europe or Japan
(Rates in 1999 in US $ per twenty-foot equivalent unit)

Landlocked developing country	Approximate land transit distance and rate			Approximate Ocean rate		Land rate factor
	Distance (km)	Mode	Rate	Port	Rate	
Ndola (Zambia)	3119	Rail	4174	Durban	1125	3.7
Ndola (Zambia)	1424	Road	3751	Beira	1050	3.5
Blantyre (Malawi)	825	Road	336	Beira	1200	2.8
Ulaanbaatar (Mongolia)	1693	Rail	1370	Tianjin	530	2.6
Kigali (Rwanda)	1867	Road	4400	Mombasa	1350	3.3
Kampala (Uganda)	1187	Road	1375	Mombasa	1200	1.2
Ouagadougou (Burkina Faso)	1192	Road	1192	Abidjan	1250	0.9
Niamey (Niger)	1170	Road	2500	Lomé	1350	1.6

Source: UNCTAD

38. A comparison between ocean freight charges paid for containerized imports and inland transit costs shows the relative importance of the latter. The difference is quite significant, with land factors of between 1 and 3, suggesting that any attempt to reduce the transport cost of imports or of landlocked developing country exports will primarily have to aim at influencing the level of costs accruing to inland transit operations.

A. North-east Asia

1. Transit transport systems

39. The North-east Asian region has one landlocked developing country, Mongolia - a large country covering 1.56 million square kilometres. Mongolia lies between Russia and China, and its trade links to the world pass through these two countries. Taking Ulaanbaatar as a starting point, the three major surface routes are: (a) to Sukhbaatar (Naushkii) by Mongolian Railways and onwards to Vladivostok port (or Nakhodka port) by Russian Railways; (b) to Sukhbaatar (Naushkii) by Mongolian Railways and onwards to St. Petersburg port or other ports in Europe by Russian Railways; and (c) to Zamyn Uud by Mongolian Railway, transshipment to China Railways (owing to change of gauge from 1520 mm to 1435 mm), then to Tianjin (Xingang) port by China Railways, using the route Erlian (Erenhot) - Jining - Datong - Beijing. The distance involved is 700 kms on Mongolia Railway and 993 kms on China Railways, for a total of 1,693 kms.

2. Foreign trade structure

40. Mongolia is heavily dependent on commodity exports. Mineral exports in 1998 accounted for half of the country's total export earnings. This makes it vulnerable

to shifts in world commodity prices. Indeed in 1998 the value of copper exports dropped by 42.8 per cent, from US$ 211.4 million to US$ 119 million, even though the volume of copper exported had increased by 7 per cent over the previous year. Mongolia's external trade position in 1998 was also weakened by the low price of cashmere, another major export commodity, which fell by 27 per cent. Mongolia has a structural trade gap which is accentuated in years of adverse weather conditions and deterioration of terms of trade. This trade balance tends to inflate transport costs because some wagons carrying imports to the border go back without return loads.

3. Magnitude and structure of transit costs

Table 2: Typical transport costs for a container (TEU) to or from Ulaanbaatar

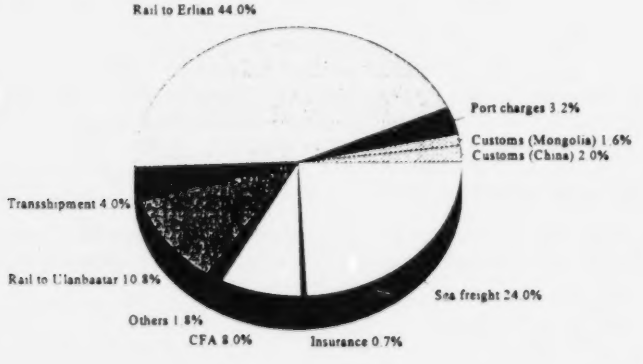
ROUTE			RATE US$ per box	TIME in days
To Japan	via	Tianjin	1900	21 to 28
To Japan	via	Russia	1760	25 to 30
To Italy	via	Tianjin: sea	3200	45 to 55
To Italy	via	Russia: land	3250	30 to 35
To UK	via	Tianjin: sea	3050	45 to 55
To UK	via	Russia: land	2900	35 to 40
From Japan	via	Tianjin	2400	21 to 28
From Japan	via	Russia	2300	25 to 30
From Warsaw	via	Russia	3200	30 to 35
From NW Europe	via	Tianjin: sea	3400	45 to 55

Source: UNCTAD

41. Mongolian external trade has access to routes through the Russian Federation or China. Transit transport costs to Japan or Europe through Russia are lower than those charged in China, as indicated in Table 2 above. Despite this cost advantage, volume of the Mongolia's transit trade through China has increased. This is explained by the fact that transit route choices are not determined by the level of direct transport costs alone; other factors may be considered more important. In this case, the determining factor is customs formalities. Clearing and forwarding agents (CFA) in Mongolia advise their clients to use the port of Tianjin because customs formalities there are more streamlined.

Figure 1. Structure of transport costs

Yokohama - Tianjin - Ulaanbaatar (rail), 1999



42. A breakdown of the various elements that make up the cost of moving a twenty-foot container (TEU) to or from Ulaanbaatar through the port of Tianjin shows clearly where the main costs lie. Figure 1 above shows the high elements of land transit transport costs (58.8 per cent) compared to ocean freight charges (24 per cent). It can also be seen from Figure 1 that the major elements in surface transport are rail freight charge within China, which account for about 44 per cent of the total transport costs. The high cost presumably reflects the imbalance in export and import volumes between Tianjin and Zamyn Uud. Another factor would be the absence of rail/road competition.

4. Impact of procedures and documentation on transit costs

43. The exchange of goods requires not only physical transportation of goods but also flows of information which are largely encoded in documents and flows of money in payment for the fulfilment of contracts. Cumbersome procedures and documentation can therefore increase transit costs, because when documents accompanying goods are held up, so are the goods themselves.

44. A major advantage of moving goods by rail is the accompanying procedures and formalities, which are kept to a minimum. This is even more true when rail transit, as the route to Tianjin, involves a single border crossing. However, while rail transit procedures have been simplified, import and export procedures as a whole are still cumbersome. At the moment, shippers are required to complete numerous trade and administrative documents (customs, banks, railway, ports, etc.). Governments may wish to identify areas which lend themselves to further harmonization, standardization and simplification. Electronic data interchange for administration, commerce and transport (EDIFACT) may present one good opportunity for concrete action because Mongolia has installed ASYCUDA and China has taken steps to develop EDIFACT transmission of documents for port and customs purposes.

5. Measures designed to reduce transit costs

45. Recent investments to upgrade the transshipment facilities at the border between China and Mongolia have removed a major bottleneck from the Ulaanbaatar-Tianjin route. But slow off-take to and from Zamyn Uud through Tianjin during peak harvest period in China is still a major concern to Mongolia. Efforts should be made to overcome this bottleneck. One other initiative to reduce transit costs may be the installation of an efficient information processing and transfer system. This would improve the efficiency of transport operations to the benefit of operators and traders along the route. Reforms to overcome non-physical barriers should cover a wide range of areas: procedural, documentary, regulatory, institutional and managerial systems. A detailed study of non-physical barriers along the Ulaanbaatar-Tianjin route would help to identify areas for future action.

B. Southern Africa

1. Transit transport systems

46. The Southern African region comprises six landlocked developing countries: Botswana, Lesotho, Malawi, Swaziland, Zambia and Zimbabwe. The six are linked to the SADC[3] maritime ports system, comprising 15 ports which are linked by rail and road network. This study uses data and information from the four most important corridors in the SADC region in volume terms, namely: (a) Durban - Johannesburg - Harare - Blantyre; (b) Durban - Johannesburg - Harare - Ndola; (c) Beira - Harare - Ndola routes; and (d) Beira - Blantyre.

2. Foreign trade structure

47. Agricultural commodity exports and minerals are the mainstay of the economies of the six landlocked developing countries in southern Africa. Malawi and Swaziland depend mainly on agriculture, while Botswana, Zambia and Zimbabwe are important

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[3] SADC members: Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe.

exporters of such minerals as gold, diamonds, copper, cobalt and ferro-alloys. Because of their commodity-based economic structures, their external trade performance depends on weather conditions and favourable international commodity prices. With the exception of Botswana, these countries, normally have a large gap or deficit in their trade balance. This trade balance tends to inflate transport costs because some vehicles carrying imports go back without return loads.

3. Magnitude and structure of transit costs

48. Railways have played a key role in transport and communication in southern Africa over the past century. The railway network is still the most extensive on the continent. But today, even for long-distance hauls - for example, between Durban and Ndola (3119 km) - railway freight charges are higher than road freight charges. For a TEU container, it costs US$ 3,714, while road freight cost US$ 2,673(Figures 2 and 3). The reason why road transport in southern Africa is more competitive is because it is well-organized and offers efficient services. For example, road transport can deliver goods from Durban to Ndola within a week, but it takes three weeks for railways to deliver cargo because of poor coordination of international railway services. Rail road competition has helped to raise the level of transport services in general, and as such should be encouraged. But for the competition to be fair, it should take place on a level playing field. This requires, on the one hand, that road transport pays road charges commensurate with the full cost of road construction and maintenance, and on the other, that transport operators are relieved the from cumbersome procedures and numerous costs imposed on them in the countries of transit.

Figure 2: Structure of transport costs

Rotterdam - Durban - Ndola (rail), 1999

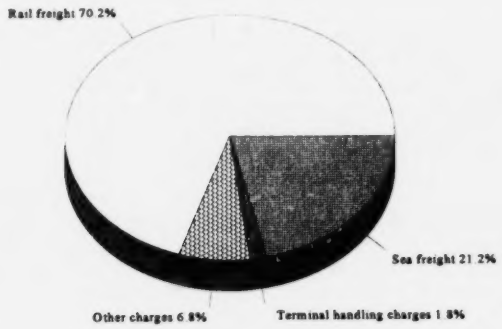
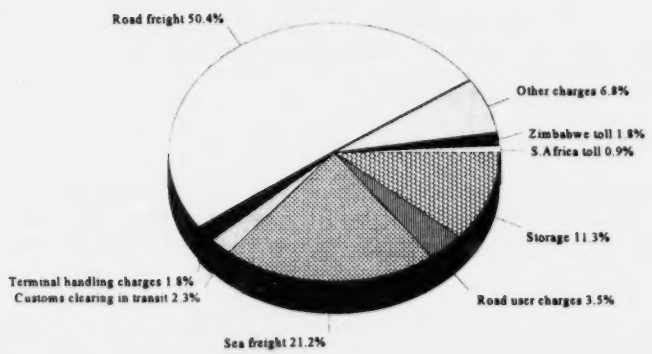


Figure 3: Structure of transport costs

Rotterdam - Durban - Ndola (road), 1999



4. The impact of procedures and documentation on transit costs

49. The six landlocked developing countries and their transit neighbours in southern Africa, acting under the auspices of COMESA[4] and SADC, have made significant progress in transit facilitation. This includes: the operation of harmonized axle load limits; adoption of COMESA carrier licencing; and the application of a regional third-party motor insurance scheme. Planned activities which will further strengthen cooperation include: the implementation of the COMESA/SADC - single administrative document, and; the Regional Customs Guarantee Scheme (RCGS). These two instruments are necessary for the establishment of a customs transit system in southern Africa. The new system will be supported by EDIFACT which was either previously installed or is in the process of being installed in southern Africa, as well as by the establishment of the one-stop border spot. These measures would speed-up transit procedures and reduce delays. Border crossing delays are at the moment considered to be excessive. It has been reported that the economic cost to the SADC region in terms of reduced truck productivity in 1996 was about US$ 50 million.[5]

5. Measures designed to reduce transit costs

50. The Inter-Connected Regional Railway Network (IRRN) in SADC countries has a total of 33,953 km of track, while the road network covers approximately 880,000 km. However, while the condition of the infrastructure is generally acceptable, there is a back- log of maintenance to be done, estimated to cost US$ 300 million for railways (excluding in Angola and the Democratic Republic of Congo) and US$ 746 million for the road network. While maintenance and rehabilitation of the infrastructure remains a major concern, attending to the non-physical barriers is most pressing. The regional instruments which have been adopted, such as inter-railway agreements, multiple entry and transit visa, the COMESA Yellow Card scheme, COMESA carrier licence and transit plates, need to be more effectively implemented. Implementation of the COMESA/SADC single administrative document, RCGS and the one-stop border post principle in 1999/2000 should be at the top of SADC's transit transport agenda. The SADC and COMESA secretariat would need financial and technical support from the donor community to enable them to strengthen outreach services and support to their member States.

C. Eastern Africa

1. Transit transport systems

51. Eastern Africa[6] has three landlocked countries: Burundi, Rwanda and Uganda. They have access to two main corridors in East Africa, the so-called central corridor which cuts across the middle of the United Republic of Tanzania and terminates at the port of Dar-es-Salaam, and the northern corridor, which opens out at the port of Mombasa and serves the East African hinterland by rail and road. Although the Democratic Republic of Congo has a sea port on the Atlantic coast, it is regarded as a landlocked country because in reality the bulk of its external trade passes through the ports of eastern or southern Africa.

2. Foreign trade structure

52. The three landlocked countries of eastern Africa depend largely on agricultural commodity exports, and accordingly, their external trade performance is predicated upon favourable weather conditions and international commodity prices. The countries suffer from a persistent deficit in their trade balance. In the case of

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[4] COMESA members: Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Eritrea, Mozambique, Namibia, Rwanda, Seychelles, Somalia, Swaziland, Sudan, Uganda, United Republic of Tanzania, Zambia and Zimbabwe.

[5] SADC Border Post Design, Operation and Transit Facilitation, 1998.

[6] Eastern Africa comprises Burundi, Democratic Republic of Congo, Kenya, Rwanda, Uganda and United Republic of Tanzania.

Uganda, the deficit has increased in recent years, but this is because the country has succeeded in attracting donor assistance to fund its large import bill. A trade deficit normally increases transport costs because vehicles carrying imports return empty.

3. Magnitude and structure of transit costs

53. The event with the greatest impact on transport in East Africa in the past two years has been the heavy rains and floods caused by the climatic phenomenon known as *El Niño*. El Niño, which struck in 1997/1998 resulted in 2,000 deaths and hundreds of thousands of displaced persons, inflicting serious damage on the countries housing and infrastructure. Extensive portions of roads, bridges and culverts were either washed away or eroded, thus rendering several roads and rail lines impassable. The disruption of rail and road systems in Kenya and United Republic of Tanzania seriously affected transit transport, hiking transit costs (see comparison in Figures 4 and 5) and increasing the informal costs associated with long delays, loss or damage to goods in transit due to accidents, pilferage and accelerated vehicle depreciation due to poor road conditions. The cost increase also reflects the security situation in Rwanda. The cost of moving a container from Mombasa to Kigali (Rwanda) which was approximately US$ 2,500 in 1995, rose to US$ 6,000 in 1998. It has now stabilized at around US$ 4,400.

Figure 4: Structure of transport costs

Rotterdam-Mombasa-Kigali (Road), 1995

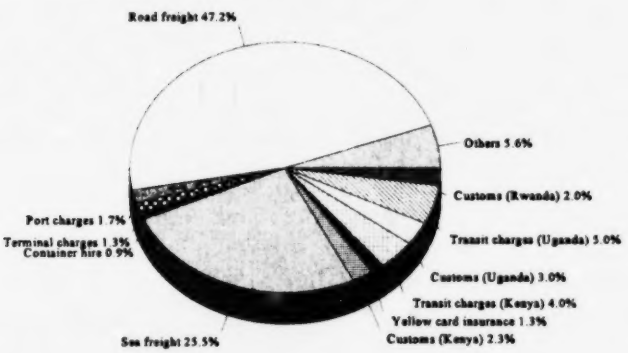
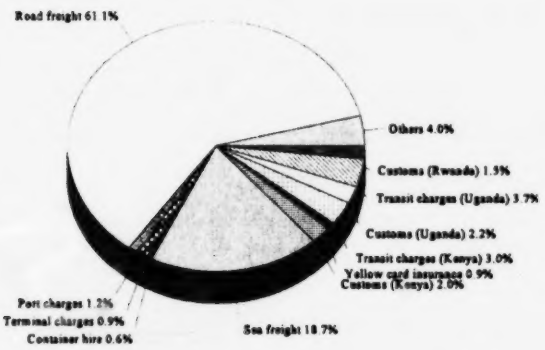


Figure 5: Structure of transport costs

Rotterdam-Mombasa-Kigali (Road), 1999



4. Impact of procedures and documentation on transit costs

54. Although the extensive damage to the infrastructure has turned Governments' attention away from issues related to non-physical barriers, it is important that, once emergency repair and rehabilitation work has been completed, government attention should revert to the ongoing reform agenda for transit procedures and documentation.

55. Eastern African countries have made substantial progress in transit facilitation. Acting under the auspices of COMESA and the Northern Corridor Transit Transport Authority, they have adopted a number of regional transit and transport instruments. These include the application of harmonized road transit charges, the implementation of which has removed discriminatory practices and facilitated forward planning by transport operators; implementation of the regional third-party motor insurance scheme (COMESA Yellow Card Scheme), which has reduced the cost of transit insurance and the delays associated with multi-country insurance coverage.

56. Building on the good experience behind them, the eastern African countries can take more bold initiatives. In the next two years, their real challenge will be to establish a regional customs transit system. This would involve the ratifications and implementation of the COMESA/SADC administrative document and of the RCGS. The use of a common customs control document which can be completed at the start of the transit movement and is accepted by customs administrations in all countries and by guarantee enforceable in all countries will the reduce costs and delays associated with national customs clearances currently in force.

5. Measures designed to reduce transit costs

57. In the wake of El Niño rains of 1997, the transport infrastructure in eastern Africa has been undergoing emergency repair and rehabilitation. El Niño exposed the fragility of an infrastructure which was all along known to be inadequate. The emergency programme for redressing the road network in United Republic of Tanzania alone is estimated to cost more than US$ 96 million. The donor community has responded with commitments in the amount of US$ 50.5 million. Commitments were made *inter alia* by the World Bank, through the International Development Association; the European Union; the Danish International Development Association; the Norwegian Agency for Development Cooperation; and the United States Agency for International Development. However, the bridging of a US$ 45.5 million financing gap still requires donor support. Apart from the emergency programmes, eastern Africa, needs to upgrade its infrastructure. A recent donor conference convened to solicit support for the improvement of the regional network noted that an investment of approximately US$ 4.6 billion was required.

58. The improvement of the transport infrastructure in East Africa should go hand in hand with efforts to improve transit procedures and documentation, as discussed in paragraph 56 above.

D. West Africa

1. Transit transport systems

59. West Africa[7] has three landlocked countries: Burkina Faso, Mali and Niger. Burkina Faso and Mali are linked to the sea by rail and road and also have access to alternative transit routes by road. Niger is not linked to the sea by rail but has several alternative road transport route options, via Togo, Benin, Côte d'Ivoire, Niger and Ghana.

2. Foreign trade structure

60. The three landlocked countries of West Africa depend largely on agricultural commodity exports and some minerals, gold, karité and uranium. As in East Africa,

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[7] Economic Community of West African States (ECOWAS), members: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo.

their external trade performance is thus predicated upon good weather conditions and favourable international commodity prices. Being in the Sahel Belt, they are subject to frequent and severe droughts and must import large quantities of food. The trade balance traditionally shows a large deficit which rises in years of poor harvest. This trade balance tends to inflate transport costs because many vehicles carrying imports go back without return loads.

3. Magnitude and structure of transit costs

61. Although Burkina Faso, Mali and Niger have a variety of transit trade route options, they have largely maintained their traditional routes through their Francophone coastal neighbours. This is in part due to the common currency, language and administrative systems. However, these advantages notwithstanding, transit of goods across borders in West Africa is subject to cumbersome administrative controls which add to the cost of transport. The advantages offered by one route are often off set by disadvantages. For example, while sea freight to and from the port of Abidjan cost about 10 per cent lower than via Lomé, the freight rate advantage is eroded by cumbersome customs procedures and lower road transport costs (see figures 6 and 7). Rail transit is inefficient, but so is road transport. Road operators from Mali, Burkina Faso and Niger operate in the informal sector using small vehicles of up to 10 tonnes. To stay in business, they frequently overload their vehicles, but revenues are still not high enough to enable them to invest in the new vehicles without which they cannot offer cost-effective transport services. For example, it is estimated that the transportation of a load of 500 metric tons of rice from Accra-Tema to Ouagadougou is 12 million CFA francs (US$ 20,000) if Ghanian trucks are used, and 16.5 million CFA francs (US$ 27,500), or 37.5 per cent more, if Burkinabe trucks are used.

Figure 6: Structure of transport costs

Rotterdam-Abidjan-Ougadougou (road),1999

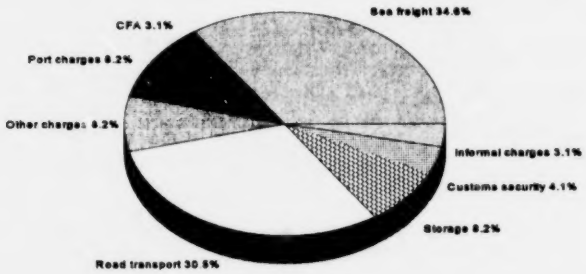
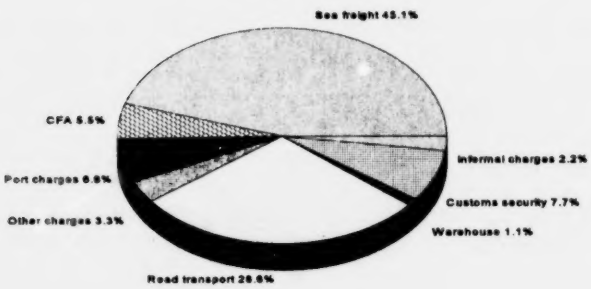


Figure 7: Structure of transport costs

Rotterdam-Lomé-Ougadougou (road), 1999



4. Impact of procedures and documentation on transit costs

62. The freight market in West Africa is regulated. Bilateral agreements normally reserve two thirds of the freight for carriage by vehicles from landlocked countries. The application of these agreements results in delays. For example, goods at the maritime ports may have to wait several days for vehicles from landlocked countries even though there are vehicles in coastal countries ready to pick them up. These restrictions have a negative impact on transport costs, to the disadvantage of the consumers in landlocked countries. Customs escorts also add to the cost of transport. Transit operators have to pay for customs escort, which operates only three times a week, resulting in additional delays. Vehicles wait for two or more days for convoys to be formed. Convoys moving under customs supervision are still subject to inspection en route by other public control agents (police, army, veterinary officers, etc.). Delays and informal payments increase the transport costs even further.

5. Measures designed to reduce transit costs

63. Modernization of the road transport services, is at the heart of action designed to reduce transit costs in West Africa. Action must be taken to raise the professional level of transport operators. This could be achieved through the liberalization of the road transport market.

III. PROPOSALS FOR FUTURE ACTION

64. The very high cost of international trade represents a serious constraint to the trade and economic development of landlocked developing countries. Measures to deal with the transit problems of such countries have to address a broad range of factors, such as inadequate infrastructure, imbalance of trade, inefficient transport organization, poor utilization of assets and weak managerial, procedural, regulatory and institutional systems.

65. Because landlocked developing countries depend on their transit neighbours for access to and from the sea, efficient transit systems require closer and even more effective cooperation and collaboration between these countries and their transit neighbours. In this context, regional economic groupings[8] and transit agreements,[9] as well as bilateral agreements, play a critical role in promoting transit transport cooperation.

66. As most transit countries are themselves developing countries facing serious economic problems, including the lack of adequate infrastructure in the transport sector, international support measures have played a critical role in improving transit systems.

67. Transit transport policy reforms which have had a positive impact on transit costs should be encouraged. Reforms that have played an important role in recent years in enhancing the efficiency of transit operations and reducing transport costs include the commercialization of railways, liberalization of transport services and efforts to improve institutional, procedural, regulatory and managerial systems. The international donor community has supported many of these initiatives and is invited to continue to do so.

68. Liberalization of transport services in the countries and regions where this has taken place has stimulated modal competition, improved services to shippers and stabilized or reduced transport costs. In countries and regions where the transport market is still closed, consideration should be given to promoting a phase-out programme leading to free and fair competition. However, liberalization of

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[8] Regional economic groupings include the Association of South-East Asian Nations (ASEAN); Southern Cone Common Market (MERCOSUR);COMESA; SADC; ECOWAS; and the Economic Cooperation Organization (ECO).

[9] Northern Corridor Transit Agreement (NCTA); ECO Transit Transport Framework Agreement; and ASEAN Framework Arrangement on Facilitation of Goods and Service .

transport services should be kept under review in order to counteract bad practices, such as overloading of vehicles by some road transport operators in a desperate attempt to save themselves from being driven out of the market by more efficient operators.

69. Rail/road competition should be encouraged. However, Governments should establish a level playing field for competition according to which road transport operators pay appropriate road charges reflecting the economic cost of road construction and maintenance. Road transport operations, in turn, should be kept free of unnecessary administrative interference.

70. The establishment of regional customs transit systems is urgent. The use of a common customs document which can be completed at the start of a transit movement and is accepted by customs administrations in all countries of the regions and a guarantee enforceable in all countries against payment of import duties and taxes on goods and the vehicle will significantly reduce the costs and delays of transit operations. Customs and cargo monitoring systems using electronic methods such as ASYCUDA and ACIS should be encouraged. Countries which have not installed EDIFACT should consider doing so.

71. The donor community, including financial and development institutions, should continue their support of programmes designed to improve physical infrastructure and remove non-physical barriers. Financial and technical assistance to countries which wish to implement customs transit systems and to install or upgrade EDIFACT should be given high priority.